

# REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON NKANDLA MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Nkandla Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ...

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nkandla Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Irregular expenditure**

9. As disclosed in note 21 to the financial statements, irregular expenditure amounting to R2,250 million was incurred due to non-compliance with Municipal Supply Chain Management (MSCM) regulations.

### **Restatement of corresponding figures**

10. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 2010- 2011 in the financial statements of the Nkandla Municipality at, and for the year ended, 30 June 2010.

### **Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and in terms of *General Notice No.1111 of 2010*, issued in *Government Gazette No.33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

### **Usefulness of information**

14. The following criteria are relevant to the findings below:
  - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents

The following audit findings relate to the above criteria:

**The content of the integrated development plan is incomplete.**

15. The integrated development plan did not include the key performance indicators and performance targets set in accordance with its performance management system, as required by sections 26(i) and 41(1)(b) of the Municipal Systems Act of South Africa (Act No.32 of 2000) and Regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

#### **Reliability of information**

16. The following criteria are relevant to the finding below:

- Completeness: All actual results and events that should have been recorded have been included in the annual performance report<sup>7</sup>

The following audit findings relate to the above criteria:

#### **Annual performance report**

17. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.

#### **Compliance with laws and regulations**

##### **Annual performance report**

18. Planned measures for improvements were not disclosed in the annual performance report as required by section 46(c) of the MSA.

#### **Annual financial statements**

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements with regard to property plant and equipment, accounts receivables, accounts payables, grant expenditure, grant revenue and irregular expenditure identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

#### **Procurement and contract management**

20. A bid relating to the upgrade of a cemetery to the value of R3,170 million was not evaluated by the bid evaluation committee which was composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as per the requirements of SCM regulation 28(2).

## INTERNAL CONTROL

21. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### Leadership

22. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations

### Financial and performance management

23. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial; performance and compliance reporting. In this regard, the accounting officer did not ensure that regular, accurate and complete financial and performance reports were prepared, which were supported and evidenced by reliable information. This resulted in material corrections in financial statements.

### Governance

24. The audit committee did not function effectively, in that it did not meet at least four times for the year and did not review the financial statements and performance reports produced by the municipality.

## OTHER REPORTS

### Investigations

25. Two investigations into allegations of non-compliance with municipal SCM regulations were in progress at the date of the report.

*Auditor General*

Pietermaritzburg

30 November 2011.



AUDITOR - GENERAL  
SOUTH AFRICA

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